

## PRINCIPLES FOR RESPONSIBLE INVESTMENT 2017 SIGNATORY GENERAL MEETING MINUTES

**25 SEPTEMBER 2017, 09:40-11:00**

**Intercontinental Hotel, Berlin**

The PRI sought input from signatories on the Signatory General Meeting (SGM) draft agenda in June 2017 and invited signatories to contribute agenda items and resolutions to be put to a vote. No agenda items or resolutions were received. The SGM papers<sup>1</sup> were sent to all signatories electronically on 25 August, with the PRI's 2017 Annual Report<sup>2</sup>.

In attendance:

- Fiona Reynolds, PRI Managing Director
- Martin Skancke, PRI Board Chair (meeting Chair)
- PRI Board members: Geeta Aiyer, Marcel Barros, Sandra Carlisle, Angela Emslie, Eva Halvarsson, Priya Mathur, Hiro Mizuno, Renosi Mokate, Gavin Power, Eric Usher, Xander den Uyl and Peter Webster.
- 500+ in-person signatory representatives

Materials:

- [SGM video recording](#)
- [SGM presentation slides](#)

### MESSAGE FROM THE CHAIR

Martin Skancke, PRI Chair, called the meeting to order at 09:40 and welcomed signatories present in person or via webcast.

The Chair provided an overview of the current three-year strategy and the work of the PRI Board over the past year.

At the beginning of the strategic period the focus was on reform of the PRI's governance structure, to ensure that the PRI was fit for purpose, that the Board was accountable to signatories and the Executive accountable to the Board. In the latter part of the strategic period the Board has focused on responsible investment practices and laying the foundations for the *Blueprint for responsible investment*<sup>3</sup> (*Blueprint*).

One striking feature over the past three years is the growing diversity of the PRI signatory base. The PRI started with a relatively homogeneous group of large asset owners from America and

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<sup>1</sup> [https://annualreport.unpri.org/docs/PRI\\_2017\\_Board-Report.pdf](https://annualreport.unpri.org/docs/PRI_2017_Board-Report.pdf)

<sup>2</sup> <https://annualreport.unpri.org/>

<sup>3</sup> [https://www.unpri.org/download\\_report/30783](https://www.unpri.org/download_report/30783)

northern Europe. The signatory base has grown with a wide variety of organisations, including geographical, type, size and responsible investment experience. The PRI needs to ensure that it is relevant to all its diverse signatories. This means however that not everything the PRI undertakes can be relevant for everyone. This is reflected in the strategy plans and the *Blueprint*. Importantly the PRI will only undertake work when there is significant signatory value and where the PRI can add unique value. The PRI has some special characteristics, its convening power, UN link, large signatory base and global reach. These characteristics give us comparative advantages that we will exploit those to ensure that the PRI is bringing value to signatories.

Over the past year the Board has focused on three areas: oversight of the implementation of the 2015-18 strategy; development of the *Blueprint*; and setting the 2018-21 strategy.

### **Oversight of the implementation of the 2015-18 strategy**

The Board monitors the performance of the Executive via detailed reporting metrics. These metrics have been reported in the annual report. Broadly the PRI is on track to deliver the commitments within the current strategy. The Board has been satisfied with the performance of the Executive and the value delivered to signatories during this strategy.

### ***Blueprint for Responsible Investment***

The *Blueprint* has been an important focus for the Board and signatories have contributed extensively to the foundations of the *Blueprint*. The *Blueprint* is the PRI's vision for the next ten years for responsible investment. The *Blueprint* objectives are divided into three categories:

- *Responsible investors*. The promotion of ESG incorporation in investment decision making is core to the PRI's work. The PRI's ambition is to strengthen this core work.
- *Sustainable markets*. Responsible investment is not just the relationship between the investors and investee companies or just about integration of ESG into the investment process, but also the markets signatories operate in. The PRI has undertaken projects such as the *Fiduciary Duty in the 21<sup>st</sup> Century* that has brought significant signatory value. The work explored how fiduciary duty is understood and applied in different jurisdictions and how the interpretation of fiduciary duty in some jurisdictions can be a barrier to responsible investing. The PRI wants to challenge these barriers to a sustainable financial system and drive meaningful data through the markets. Another issue that the PRI will work on is how climate related financial disclosures are understood and utilised by investors.
- *A prosperous world for all*. Investments have a real-world impact and the Sustainable Development Goals (SDGs) will be the benchmark for this work. If we believe that governments are serious about the SDGs, this will tell us about the policy environment that investors will operate in over the forthcoming future. From a risk perspective, investors are taking a risk if they are not aligning their activities with these broader objectives as reflected in the SDGs.

The PRI has also recently published a more in-depth *Blueprint* for responsible investment document<sup>4</sup>, with more detail on the objectives and how the PRI intends to take these objectives forward.

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<sup>4</sup> [https://www.unpri.org/download\\_report/40759](https://www.unpri.org/download_report/40759)

## 2018-21 strategy

Starting in late October there will be a formal signatory consultation on the draft 2018-21 strategy. The strategy is how the PRI plans to make progress on the nine *Blueprint* objectives. There are three themes for the draft strategy:

1. *A strong focus on ESG integration.*
2. *Bringing the PRI closer to signatories.* The PRI will improve its digital platform to make our resources more accessible, increase translated materials and strengthen local networks. Signatories are generally more engaged and active when there is a local network manager that can act as link between signatories locally and the PRI. Recently the PRI has added dedicated resources in the Benelux countries, France, Australia and China. Bringing the PRI closer to signatories is very important for the Board, reflecting the fact that the signatory base has grown significantly and become more diverse.
3. *Increasing signatory accountability to the Principles.* Accountability has been an important theme for this three-year strategy. The PRI started by reforming the accountability of the Board to signatories, improving our governance and making sure that there was real accountability from the Board to signatories. Secondly, we worked on the accountability of the PRI Executive to the Board, setting out performance metrics that are published in the annual reports. Now the PRI is considering the third phase of our accountability work, ensuring the accountability of signatories to the Principles and towards the PRI. The PRI must have mechanisms to ensure a minimum level of commitment of the signatories to the Principles. The formal consultation on *Proposals and methods to strengthen PRI signatory accountability*<sup>5</sup> is open until 30 September and we encourage all signatories to have their say.

After the formal signatory consultation on the draft strategy, the Board will review the signatory comments and approve the final strategy. The final strategy will be published before the start of the financial year commences on 1 April 2018.

The Chair thanked all signatories for their involvement in the PRI, especially those who participated in work streams, advisory groups and provided input into the *Blueprint* and other consultations. It is important for the Board to ensure that the PRI maintains a close interaction with signatories. The PRI is a signatory based organisation and everything the PRI does is for signatories and on behalf of signatories. The PRI is growing and becoming more diverse. Therefore, it is especially important to have structured processes to make sure that the PRI is listening to signatories and delivering what signatories want us to deliver.

## MANAGEMENT AND FINANCIAL REPORT

Fiona Reynolds, presented the management and financial report for the 2016-17 financial year.

Fiona Reynolds also welcomed everyone to PRI in Person. The event was sold out early this year and the PRI apologises to disappointed signatories who could not attend the conference, who might be attending the SGM via the webcast. In future years the PRI will look at ways to ensure that every signatory who wants to has the opportunity to be represented in person.

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<sup>5</sup> <https://www.unpri.org/about/pri-governance/consultation>

One of the reasons that the event is in Berlin is to promote more responsible investment in Germany. The PRI welcomes the newly founded German Hub for Sustainable Finance<sup>6</sup>, which aims to develop recommendations on sustainable finance for the German government. Dustin Neuneyer, PRI Head of Continental Europe, is part of the steering committee. Germany also has the presidency of the G20, which is an opportunity to further sustainable finance.

### ***Blueprint for responsible investment***

One key piece of work has been the *Blueprint*, including the extensive signatory consultation. Turning ten years old motivated the PRI to reflect on our achievements, current position and the future for responsible investment over the next ten years. There were nearly 2,000 participants in the *Blueprint* discussions, from over 520 signatory organisations, and it has been very useful to talk to so many signatories about the issues that are important to them. All the *Blueprint* themes are reflected in the sessions at PRI in Person.

### **Signatory involvement**

The PRI is fortunate to have a very active signatory base. There are three hundred plus participants in the advisory committees and working groups. Thousands of participants have attended PRI events in the past twelve months, including the *Blueprint* consultation. Hundreds of signatories participate in collaborative engagements. There is a real dedication in the signatory base to work with the PRI, to collaborate and to share knowledge. 1,248 signatories have reported in the latest PRI reporting cycle, the largest number of reports ever submitted. This is a significant achievement and analysis of the reporting information informs our future work.

### **Supporting implementation**

Over the past year one aim for the PRI has been to take ESG integration to the next level. A *Practical guide to ESG integration for equity investing*<sup>7</sup> is the most comprehensive guide in this area to date. The report has guidance and case studies on fundamental, quant, smart beta and passive strategies. 20,000 copies have been downloaded so far.

The PRI and the CFA Institute have launched a global study to determine how widely ESG factors are considered by mainstream investors. While the work of the PRI is moving into the mainstream there is still a lot of work to be done. Collaboration with groups like the CFA are critical to reach many of the analysts and portfolio managers working in mainstream institutions.

Building on the success of the ESG in credit ratings statement the PRI released a new report on *Shifting perspectives: ESG, credit risk and ratings – Part 1: The state of play*<sup>8</sup>. In the private equity space, the PRI launched the first guidance on *Incorporating responsible investment into private equity fund terms*<sup>9</sup>. The report is the second in a trilogy of tools to help LPs in selecting, appointing and monitoring their managers. The PRI also launched a *Responsible investment due diligence questionnaire for hedge funds*<sup>10</sup>.

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<sup>6</sup> <http://www.nachhaltigkeitsrat.de/en/projects/projects-of-the-council/h4sf/>

<sup>7</sup> [https://www.unpri.org/download\\_report/22600](https://www.unpri.org/download_report/22600)

<sup>8</sup> [https://www.unpri.org/download\\_report/36678](https://www.unpri.org/download_report/36678)

<sup>9</sup> [https://www.unpri.org/download\\_report/37092](https://www.unpri.org/download_report/37092)

<sup>10</sup> [https://www.unpri.org/download\\_report/31412](https://www.unpri.org/download_report/31412)

## Convening for collaboration

The PRI has produced a range of outcome guides across environmental, social and corporate governance issues. These include *Engaging with oil and gas companies on fracking: an investor guide*<sup>11</sup>; *From poor working conditions to forced labour – what's hidden in your portfolio*<sup>12</sup>; *Engaging on anti-bribery and corruption: a guide for investors and companies*<sup>13</sup>; *Investors' recommendations on corporate income tax disclosure*<sup>14</sup>; *Engaging on director nominations: an investor guide*<sup>15</sup>. These guides cover a diverse range of issues. Not every issue will be of interest to every signatory, but there is something that will be of interest to all signatories in the guides produced and engagements undertaken.

During the conference, the PRI will launch new academic research on the impact of shareholder engagement, particularly collaborative engagement, has on companies. The research also reveals the most effective ways to engage, useful for the future work of the PRI and signatories.

## Engaging decision-makers

Following the release of the flagship report, *Fiduciary Duty in the 21<sup>st</sup> century*<sup>16</sup>, the PRI has continued to take the programme forward with country specific roadmaps. These include roadmaps for Australia, Brazil, Canada, Germany, Japan, South Africa, UK and the US. The PRI has also extended the work with a report on investor obligations and duties in six Asian markets.

The PRI launched the Sustainable Financial System programme. Over the next year the programme will focus on four priority areas: asset consulting services; trustee readiness for a sustainable system; macro risks - investor response to threats and instability; system links and the role of actors.

The PRI has contributed to 21 policy consultations over the past 12 months, focused on furthering responsible investment. There has been a significant increase in positive responsible investment policy and regulation, especially in Europe. The *EU High-Level Expert Group on Sustainable Finance interim report*<sup>17</sup> is particularly encouraging. Nathan Fabian, PRI Director of Policy and Research, has participated in the expert group and provided guidance on areas such as fiduciary duty. The PRI looks forward to working with the recommendations and the commission.

To assist the PRI with its policy work, the PRI is establishing a new global policy reference group, with up to 80 members from the global signatory base. Applications close on 27 October and details are on the PRI website.

## Enhancing accountability

To enhance accountability and to empower asset owners the PRI has released a new Data Portal. The portal enables asset owners to request access all their managers' reports and

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<sup>11</sup> [https://www.unpri.org/download\\_report/26897](https://www.unpri.org/download_report/26897)

<sup>12</sup> [https://www.unpri.org/download\\_report/18258](https://www.unpri.org/download_report/18258)

<sup>13</sup> [https://www.unpri.org/download\\_report/18553](https://www.unpri.org/download_report/18553)

<sup>14</sup> [https://www.unpri.org/download\\_report/28015](https://www.unpri.org/download_report/28015)

<sup>15</sup> [https://www.unpri.org/download\\_report/35591](https://www.unpri.org/download_report/35591)

<sup>16</sup> [https://www.unpri.org/download\\_report/6131](https://www.unpri.org/download_report/6131)

<sup>17</sup> [https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf)

assessment scores from the PRI reporting framework. The aim is to promote the sharing of best practice, engagement between asset owners and investment managers, and to enhance decision-making through collaboration. 246 reports have been requested so far and less than 2% have been declined. Signatories spend a significant amount of time reporting and we encourage signatories to use the reporting information via the Data Portal. Service provider reporting was piloted in 2017 and will become mandatory for all service providers from January 2018.

The PRI is introducing minimum requirements for signatories, to ensure that signatories are accountable to the Principles. I am aware that a number of signatories are nervous about these proposals. Some signatories think that the proposed minimum standards are not stringent enough and some think that they go too far.

The draft minimum requirements are:

- An investment policy setting out the firm's responsible investment approach covering >50% of AUM;
- Staff (internal or external) explicitly responsible for implementing responsible investment policy; and
- Senior-level oversight of, and accountability mechanisms, for implementing responsible investment.

The consultation on the minimum requirements is open until 30 September 2017. Many signatories have provided input, but I encourage all signatories to have their say.

This is a transition for the PRI and its signatories. The PRI will compile a confidential non-public watch list based on the minimum requirements and we will work with signatories that don't meet the criteria. As it currently stands these minimum standards affect 15% of the signatory base. It is not the intent or wish of the PRI to delist signatories. The PRI is committed to working with any signatory that wants to meet the minimum standards.

Whilst the PRI will not 'name and shame' signatories, the PRI does want to 'name and fame' signatories as part of the accountability programme. The PRI aims to identify and promote leadership and best practices, globally, in regions and across asset classes. The draft leadership criteria are also open for consultation until 30 September. The draft proposals outline how the leadership group will be identified: a weighting of scores across the reporting and assessment framework, based on implementation, governance, transparency and knowledge sharing. Please get involved and share your views.

### **Increasing asset owner participation**

Empowering asset owners is critical to the PRI's work. Asset owners are key to driving responsible investment across the investment chain. This year the PRI has developed new guidance specifically for asset owners: *Investment policy: process and practice*<sup>18</sup>; *A practical guide to ESG integration for equity investing - Chapter 4: Assessing external managers*; *Responsible investment due diligence questionnaire for hedge funds*<sup>19</sup>; *Incorporating responsible investment into private equity fund terms*<sup>20</sup>.

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<sup>18</sup> [https://www.unpri.org/download\\_report/24553](https://www.unpri.org/download_report/24553)

<sup>19</sup> [https://www.unpri.org/download\\_report/31412](https://www.unpri.org/download_report/31412)

<sup>20</sup> [https://www.unpri.org/download\\_report/37092](https://www.unpri.org/download_report/37092)



We have undertaken more than 200 development sessions with asset owners to assist with implementing the Principles. The PRI is working with the Centre for Working Capital, a global group of asset owner trustees, to raise the importance of Social issues within our work. We will also soon release the new PRI Academy online trustee training module and a trustee readiness online tool for pension funds.

Encouragingly, 43 new asset owners have signed up to the Principles over the last 12 months. We welcome these new asset owners, many of whom are at the conference. We have also welcomed back a number of Danish funds.

### **Collaborating with key stakeholders**

Partnerships are critical to the PRI. We need to work together with partner organisations to leverage their reach and expertise. Some highlights during the year include working with:

- MSCI on the *Global guide to responsible investment regulation*<sup>21</sup>;
- the OECD on *Responsible business conduct for institutional investors*<sup>22</sup>;
- CERES on tackling climate change and deforestation;
- the SIFs, who undertake critical work in their countries;
- CDP and the regional climate groups on a whole range of climate issues.

The PRI's most important relationship is with our UN partners, UNGC and UNEP FI. We are working together on the Sustainable Development Goals, *Fiduciary Duty in the 21<sup>st</sup> Century* and the Sustainable Stock Exchange Initiative.

Many signatories have expressed an interest in the SDGs and want to reflect on how the SDGs complement their ESG integration and the relevance to their investments. We have just released *The SDG investment case*<sup>23</sup> and have established two new working committees: SDGs and active ownership; and SDGs and asset allocation.

### **Climate action**

Climate change has been rated as the number one issue ESG of concern for signatories. Climate change has also been rated as the number one ESG issue that signatories want the PRI to focus more on and provide more guidance. The PRI has contributed to the G20 Green Finance Study Group; the European Commission High Level Expert Group on sustainable finance; China's green finance task force and environmental disclosure guidelines; supported the FSB Taskforce on Climate-Related Financial Disclosures (TCFD); and will contribute to the new UK green finance task force.

The PRI and Baker McKenzie have published a series of climate disclosure country reviews to assist investors in preparing for implementation of the recommendations of the TCFD. The country reviews map the TCFD's draft recommendations onto existing regulation and guidance in Brazil, Canada, EU, Japan and the UK. From January 2018, the PRI reporting framework will be

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<sup>21</sup> <http://bit.ly/2gY8tBw>

<sup>22</sup> <https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf>

<sup>23</sup> [https://www.unpri.org/download\\_report/42251](https://www.unpri.org/download_report/42251)

aligned with the TCFD recommendations and signatories will be able to report in line with the TCFD via the PRI reporting.

With Carbon Tracker, we recently released a ground-breaking report, *2 degrees of separation: Transition risk for oil and gas in a low carbon world*<sup>24</sup>. The report is the first of its kind to rank 69 of the largest oil and gas companies by their exposure to the low carbon transition. The report analysis shows that US\$2.3trn – around one third – of potential capex to 2025 should not be deployed in a 2 degrees Celsius carbon budget scenario compared to business as usual expectations, and company level exposure varies from under 10% to over 60% when considering the largest 69 publicly traded companies. The PRI has run a roadshow in seven countries with Carbon Tracker to publicise these findings.

At the conference, the PRI and the regional climate groups will launch a new five-year collaborative engagement with the world's largest corporate greenhouse gas emitters.

### **Strengthening key regions**

The PRI has continued to strengthen our capacity and expertise outside of London. The PRI is a global organisation and we need to be closer to signatories, through more staff located in the regions and the dedication of more resources to translations. To encourage greater signatory action, it is important that signatories have access to documents and guidance in their local languages.

This week we will also launch the PRI Francophone Network, bringing together French speaking signatories across the world. The PRI is delighted that Daniel Simard, CEO of Bâtirente and ex PRI Board director, has accepted the role of chairing the network.

### **Building financial stability**

There are detailed audited accounts in the 2017 Annual report. Total income was £8.122million, mainly from signatory fees, and the PRI spent just over £8million. Most expenditure is on staff, rent and consulting services. A list of the large consultancy projects is included in the annual report.

Looking ahead, the PRI will be consulting with signatories on the three-year strategy. We encourage signatories to get involved. Signatory input into the last three-year strategy and the Blueprint was critical. The PRI does not plan to increase the fees, beyond inflation, in the next three-year strategy cycle.

Lastly, Fiona Reynolds thanked signatories, the Board and the staff. The PRI would be nothing without its signatories. PRI Board members give up a lot of their own time, actively participate and provide valuable guidance and direction. She particularly thanked the fantastic staff at the PRI.

## **SIGNATORY Q&A**

Signatories asked questions on the:

- PRI's global reach, including work in Russia;

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<sup>24</sup> <http://2degreeseperation.com/>



- Accountability of investment managers to asset owners;
- PRI's Sustainable Development Goals work programme;
- Eligibility criteria and pre-screening for potential signatories;
- Development of the Blueprint for Responsible Investment;
- Sustainable Financial System work programme;
- Asset consultants work programme; and
- PRI's role in raising awareness and dispelling myths in new markets.

## BOARD ELECTION CANDIDATES

The 2017 PRI Board election is for **three asset owner** positions and **one investment manager** position. The Board is encouraging *asset owner* candidates from North America and Emerging Markets. The Board is also encouraging female candidates.

Three candidates have nominated for the three asset owner positions and nine<sup>25</sup> candidates have nominated for the one investment manager position.

In addition, signatories will be asked to confirm Martin Skancke as Chair of the board, following his nomination by the board for a second three-year term.

Signatories will be asked to vote for the candidates from 18 October to 28 November.

Asset owner candidates:

| Name             | Role                           | Organisation   | Region        | Signatory since | Seconding signatory              |
|------------------|--------------------------------|--|---------------|-----------------|----------------------------------|
| Marcus Madureira | Planning director              | Caixa de Previdência dos Funcionários do Banco do Brasil (PREVI) | Latin America | 2006            | ABP; CalPERS; Petros             |
| Priya Mathur     | Board member                   | California Public Employees' Retirement System (CalPERS)         | N. America    | 2006            | GIPF Japan                       |
| Renosi Mokate    | Chairperson, Board of trustees | Government Employees Pension Fund of South Africa                | Africa        | 2006            | Eksom pension and provident fund |

Investment manager candidates:

| Name          | Role  | Organisation              | Region     | Signatory since | Seconding signatory                  |
|---------------|---|---------------------------|------------|-----------------|--------------------------------------|
| Carol Geremia | President   | MFS Investment Management | N. America | 2010            | Boston Trust & Investment Management |
| Lisa Hagerman | Director of programs  | DBL partners              | N. America | 2014            | Bridges Fund Management              |
| Adi Herzberg  | Head of Legal, Fund Structuring, US and Latin America; Director, General Counsel Department | Credit Suisse Group AG    | Europe     | 2014            | Brawn Capital                        |

<sup>25</sup> Originally there were 11 candidates for the investment manager position announced at the SGM.

| <b>Name</b>       | <b>Role</b>                               | <b>Organisation</b>       | <b>Region</b>   | <b>Signatory since</b> | <b>Seconding signatory</b>           |
|-------------------|---|---------------------------|-----------------|------------------------|--------------------------------------|
| Radha Kuppalli    | Executive Director, Investor Services     | New Forests Pty Ltd       | Australia       | 2010                   | Generation Investment Management     |
| Scott Mather      | Chief Investment Officer, Core Strategies | PIMCO                     | N. America      | 2011                   | Allianz Asset Management             |
| Alexandra Morris  | Chief Investment Officer                  | Skagen AS                 | Europe          | 2012                   | Pareto Asset Management / Odin Funds |
| Therese Niklasson | Global Head of ESG                        | Investec Asset Management | Europe / Africa | 2008                   | Columbia Threadneedle                |
| Stephen Peel      | Co-Founding Partner                       | Novalpina Capital         | Europe          | 2017                   | TowerBrook Capital Partners          |
| Tycho Sneyers     | Managing Partner                          | LGT Capital Partners      | Europe          | 2008                   | MN                                   |

Signatories approve the minutes via an online vote alongside the Board election vote.